PEREGRINE OIL AND GAS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995 AND 1994

Michael A. Kociuba

Professional Corporation

Chartered Accountant

AUDITOR'S REPORT

To the Shareholders of
Peregrine Oil and Gas Ltd.

I have audited the consolidated balance sheets of Peregrine Oil and Gas Ltd. as at December 31, 1995 and 1994 and the consolidated statements of loss and deficit and changes in financial position for the year ended December 31, 1995 and for the fifteen months ended December 31, 1994. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the year ended December 31, 1995 and for the fifteen months ended December 31, 1994 in accordance with generally accepted accounting principles.

Michael A. Kociuba

CHARTERED ACCOUNTANT

CALGARY, Alberta
April 2, 1996.

PEREGRINE OIL AND GAS LTD.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1995 AND 1994

	1995	1994
ASSETS		
CURRENT		
Cash	$ 437,433	$ 3,582
Accounts receivable and accruals	37,581	19,465
Alberta royalty tax credit receivable	21,049	5,066
Goods and services tax recoverable	8,252	1,931
Due from related company	-	35,975
	504,315	66,019
PETROLEUM AND NATURAL GAS PROPERTIES (Note 3)	343,690	356,664
OTHER		
Deferred financing costs	-	14,850
Other	3,600	3,600
	3,600	18,450
	$ 851,605	$ 441,133
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 26,862	$ 25,645
Due to shareholder	-	10,500
	26,862	36,145
PROVISION FOR SITE RESTORATION COSTS	3,366	789
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 4)	854,673	423,051
DEFICIT	(33,296)	(18,852)
	821,377	404,199
	$ 851,605	$ 441,133

APPROVED ON BEHALF OF THE BOARD

R. Elliott Director

Robert R. Hollis Director

Michael A. Kociuba

PEREGRINE OIL AND GAS LTD.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Year Ended December 31, 1995	Fifteen Months Ended December 31, 1994
REVENUE		
Oil and gas	$ 142,793	$ 41,280
Royalties	(28,362)	(7,580)
Alberta royalty tax credit	18,571	5,066
Interest	4,296	-
	137,298	38,766
EXPENSES		
General and administrative	49,786	5,379
Operating costs	54,875	10,500
Depletion and amortization	44,504	13,411
Site restoration costs	2,577	789
Reorganization costs	-	15,615
	151,742	45,694
LOSS FOR THE YEAR	(14,444)	(6,928)
DEFICIT, BEGINNING OF YEAR	(18,852)	(5,693,753)
REDUCTION OF ACCUMULATED DEFICIT (Note 4(d))	-	5,681,829
DEFICIT, END OF YEAR	$(33,296)	$(18,852)
Basic Loss Per Share	$(0.00)	$(0.00)

Michael A. Kociuba

PEREGRINE OIL AND GAS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31, 1995	Fifteen Months Ended December 31, 1994
OPERATING ACTIVITIES		
Loss for the year	$(14,444)	$(6,928)
Items not affecting cash		
Depletion and amortization	44,504	13,411
Provision for site restoration costs	2,577	789
	32,637	7,272
Net changes in non-cash working capital balances related to operations (*)	(39,203)	(17,942)
	(6,566)	(10,670)
FINANCING ACTIVITIES		
Issue of capital stock, net of issue costs	431,622	423,050
Advances from (to) related company	35,975	(35,975)
Deferred financing costs	14,850	(14,850)
Advances (to) from shareholder	(10,500)	10,500
	471,947	382,725
INVESTING ACTIVITY		
Acquisition of petroleum and natural gas properties	(31,530)	(370,075)
INCREASE IN CASH	433,851	1,980
CASH, BEGINNING OF YEAR	3,582	1,602
CASH, END OF YEAR	$ 437,433	$ 3,582

* Net changes in non-cash working capital		
Accounts receivable and accruals	$(18,116)	$(19,465)
Alberta royalty tax credit receivable	(15,983)	(5,066)
Goods and services tax recoverable	(6,321)	(1,318)
Accounts payable and accrued liabilities	1,217	7,907
	$(39,203)	$(17,942)

Michael A. Kociuba

1. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Peregrine Oil and Gas Inc. which has been consolidated using the purchase method of accounting.

b) Petroleum and Natural Gas Properties and Related Depletion and Amortization

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of petroleum and natural gas properties are capitalized in costs centres on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical expenses, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, and related overhead charges.

The costs related to a cost centre from which there is production, together with the costs of production equipment, are depleted and amortized on the unit of production method based on the estimated proven reserves as determined by independent reservoir engineers. Natural gas reserves and production are converted into equivalent barrels of oil based upon the relative energy content.

Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs which are depleted.

In applying the full cost method, the Company calculates a ceiling test which restricts the capitalized costs less accumulated depletion and amortization from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, after deducting estimated future general and administrative expenses, future removal and site restoration costs, financing costs and income taxes, all undiscounted and unescalated. Should this calculation indicate an excess carrying value, a write-down would be recorded. Where the ultimate recoverable amount is less than the capitalized cost and the deficiency is related to significant acquisitions within the last twenty-four (24) months, and is not permanent, a write-down of petroleum and natural gas properties is not required.

Sales of petroleum and natural gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized, unless such adjustments would significantly alter the rate of depletion and amortization by more than twenty percent.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Other Assets

Other assets are stated at cost.

d) Joint Ventures

Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

e) Site Restoration Costs

Estimated future removal and site restoration costs, net of expected recoveries, are provided for over the life of the proved reserves on a unit-of-production base. Costs are estimated each year by management in consultation with the Company's engineers based on current regulations, costs, technology and industry standards. Removal and site restoration expenditures will be charged to the accumulated provision account as incurred.

f) Loss Per Share

Loss per share information is calculated on the basis of the weighted average of common shares outstanding during the year.

g) Translation of Foreign Currencies

Accounts maintained in foreign currencies have been translated into Canadian funds on the following basis: monetary assets and liabilities at the rate of exchange in effect at the year-end; non-monetary assets at rate at the time of acquisition, and revenues and expenses at the average rates for the year except for amortization and depletion which are translated at the same rates as used for the related assets. Gains or losses from the translation of the accounts maintained in foreign currencies are reflected in the statement of earnings.

2. BUSINESS COMBINATION

Effective October 1, 1994, the Company acquired all of the issued and outstanding shares of DAS Holdings Incorporated ("DAS"), a private oil and gas company. The value attributed to the common shares issued by the Company was $ 0.195 per share for a total ascribed value of $ 315,550. The amount was determined with regard to other transactions with a related company and private placements in the related company which more appropriately reflect the fair value of the Company's shares issued from treasury. The acquisition has been accounted for by the purchase method with the results of operations included in these financial statements from October 1, 1994. The total purchase price has been allocated based on fair values, to petroleum and natural gas properties.

The purchase price as stated in the purchase agreement was $ 809,100 payable by the issuance of 1,618,200 common shares of the Company at a price of $ 0.50 per share. This resulted in the difference in legal capital as noted in Note 4(h).

3. PETROLEUM AND NATURAL GAS PROPERTIES

	1995			1994
	Cost	Accumulated Depletion and Amortization	Net Book Value	Net Book Value
Petroleum and natural gas properties, including development thereon and production equipment	$ 401,605	$ 57,915	$ 343,690	$ 356,664

Unproved properties in the amount of $ 81,269 (1994 - $ 54,524) have been excluded from petroleum and natural gas properties for purposes of calculating depletion. The properties are in various stages of exploration or development and will be transferred to costs subject to depletion as exploration and development on the related petroleum and natural gas leases is completed.

Certain petroleum and natural gas properties having a net book value of $ 258,330 (1994 - $ 302,140) for accounting purposes have a nil cost for income tax purposes.

4. CAPITAL STOCK

a) Authorized

Unlimited number of common shares without nominal or par value

b) Issued

	Number of Common Shares	Stated Value
Balance - September 30, 1993	15,840,601	$ 5,681,830
Conversion adjustment pursuant to shareholders' resolution (see (c) below)	(11,880,451)	-
Reduction of stated capital (see (d) below)	-	(5,681,829)
	3,960,150	1
Issued in exchange for the shares of DAS (see Note 2 and (g) below)	1,618,200	315,550
	5,578,350	315,551
Issued in exchange for petroleum and natural gas properties and other assets (see Note 6(a))	550,000	107,500
Balance - December 31, 1994	6,128,350	423,051
Issued for cash pursuant to exchange offering prospectus	1,100,000	550,000
Share issue costs	-	(118,378)
Balance - December 31, 1995	7,228,350	$ 854,673

c) Conversion and Name Change

Pursuant to a shareholders' resolution dated August 4, 1994 and effective September 15, 1994, the Company consolidated all of its issued common shares of the Company on the basis of one new consolidated share for four existing shares. As a result of this resolution and by Articles of Amendment, the Company changed its name from Peregrine Petroleum Ltd. to Peregrine Oil and Gas Ltd.

4. CAPITAL STOCK (Continued)

d) Reduction in Stated Capital

On August 4, 1994 the shareholders of the Company approved a special resolution to reduce the deficit of the Company by a reduction in the stated capital of the Company. This decision was effected by the directors on September 15, 1994.

e) Stock Options

The following options to purchase shares are held by directors, employees and officers of the Company as at December 31, 1995:

Number of Shares	Exercise Price Per Share	Expiry Date
350,000	$0.50	November 16, 1999

Subsequent to December 31, 1995, the following options to purchase shares were granted by the Company:

Number of Shares	Exercise Price Per Share	Expiry Date
440,000	$0.55	January 29, 2000
151,000	$0.50	January 29, 2000

f) Agent's Option

During the year ended December 31, 1995 the Company completed an Exchange Offering Prospectus pursuant to which the agent was granted a non-assignable option to purchase 110,000 units at a price of $ 0.50 per unit and is exercisable on or before August 30, 1996.

g) Amalgamation

By Articles of Amalgamation dated November 16, 1994, the Company and its wholly owned subsidiary, DAS, were legally combined. The 100 Class A shares issued by DAS, representing all the outstanding capital stock of the amalgamating subsidiary were cancelled.

h) Legal Capital

The legal stated capital is greater than stated capital shown in the financial statements by $ 493,550. This difference arose because of the method of accounting for the business combination (see Note 2) which ascribed a lower value to the capital stock than the issued value of the shares which were issued pursuant to the terms of the acquisition agreement.

4. CAPITAL STOCK (Continued)

d) Reduction in Stated Capital

On August 4, 1994 the shareholders of the Company approved a special resolution to reduce the deficit of the Company by a reduction in the stated capital of the Company. This decision was effected by the directors on September 15, 1994.

e) Stock Options

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g) Amalgamation

By Articles of Amalgamation dated November 16, 1994, the Company and its wholly owned subsidiary, DAS, were legally combined. The 100 Class A shares issued by DAS, representing all the outstanding capital stock of the amalgamating subsidiary were cancelled.

h) Legal Capital

The legal stated capital is greater than stated capital shown in the financial statements by $ 493,550. This difference arose because of the method of accounting for the business combination (see Note 2) which ascribed a lower value to the capital stock than the issued value of the shares which were issued pursuant to the terms of the acquisition agreement.

4. CAPITAL STOCK (Continued)

i) Warrants

The following common share purchase warrants were outstanding as at December 31, 1995:

Number Warrants	Exercise Entitlement	Exercise Price Per Share	Expiry Date
1,100,000	One share for each warrant	$ 0.75	September 2, 1996

j) Escrow

As at December 31, 1995, 2,127,673 (1994 - nil) common shares are held in escrow by the transfer agent subject to the direction or determination of the relevant regulatory authorities.

5. INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from combined federal and provincial statutory tax rates. The main differences are summarized as follows:

	Year Ended December 31, 1995	Fifteen Months Ended December 31, 1994
Loss before income taxes	$(14,444)	$(6,928)
Corporate tax rate	44.3%	44.3%
Calculated income tax recovery	$(6,399)	$(3,069)
Increase (decrease) in taxes resulting from:		
Non-deductible crown royalties	11,156	3,358
Alberta royalty tax credits	(8,227)	(4,409)
Resource allowance	(3,938)	(3,387)
Depletion with no tax basis	19,408	5,941
Share issue costs	(10,134)	(1,316)
Reorganization costs	-	2,270
Other	(2,895)	612
Future tax benefits not recorded	1,029	-
	$ -	$ -

The Company has incurred losses for income tax purposes of approximately $ 182,500, the related benefit of which has not been recorded in the financial statements. Unless sufficient taxable income is earned, these losses will expire between 2000 to 2002.

6. RELATED PARTY TRANSACTIONS

a) On November 16, 1994, the Company acquired petroleum and natural gas properties and other assets from a company in which certain officers, directors and shareholders are also officers, directors and shareholders of that company for a total consideration of $ 107,500 which was satisfied by the issuance from treasury of 550,000 common shares of the Company.

b) On November 16, 1994, the petroleum and natural gas properties acquired in Note 6(a) were transferred to the Company's wholly-owned United States subsidiary for a consideration of $ 54,524 which was satisfied by the issuance from treasury of 40,092 shares of the subsidiary company.

7. SEGMENTED INFORMATION

The Company is involved in the exploration and development of petroleum and natural gas properties in Canada and the United States. Operations and identifiable assets by geographic region are as follows:

	1995	1994
Revenue		
Canada	$ 147,089	$ 41,280
Operating loss		
Canada	$(14,302)	$(6,928)
United States	(142)	-
	$(14,444)	$(6,928)
Identifiable assets		
Canada	$ 639,430	$ 386,609
United States	212,175	54,524
	$ 851,605	$ 441,133
Capital expenditures		
Canada	$ 4,785	$ 315,551
United States	26,745	54,524
	$ 31,530	$ 370,075

8. SUBSEQUENT EVENTS

a) On January 10, 1996, the Company acquired petroleum and natural gas properties from several companies in which certain shareholders of the Company are officers, directors and shareholders of those companies for a total consideration of $ 430,700 which was satisfied by the issuance from treasury of 861,400 common shares of the Company.

b) On January 10, 1996, the Company acquired a petroleum and natural gas property from a company in which certain officers, directors and shareholders are also officers, directors and shareholders of that company for a total consideration of $ 275,000 which was satisfied by the issuance from treasury of 550,000 common shares of the Company. The agreement is subject to the approval of regulatory authorities.

c) On January 30, 1996, the Company completed a private placement of an aggregate of 900,000 units of the Company at a price of $ 0.50 per unit for gross proceeds of $ 450,000. Each unit is comprised of one special warrant and one class B warrant. Each class B warrant entitles the holder thereof to acquire, at a price of $ 0.75 per share, one additional common share from treasury for a period of one year from the date of issue. Each special warrant entitles the holder thereof to one common share from treasury at no additional cost to the holder. A commission of $ 45,000 was paid to the agent on the issue of the 900,000 units.